**2023**

**THE LEGISLATIVE ASSEMBLY FOR THE**

**AUSTRALIAN CAPITAL TERRITORY**

**TENTH ASSEMBLY**

# Short-term rental accommodation in the ACT

**Assembly Resolution of 30 March 2023**

**Government Response**


**Presented by**
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**November 2023**

***Response to Short-term Rental Accommodation in the ACT Assembly Resolution***

Introduction

A key determinant of long-term rental affordability is the rate of growth in the housing stock. This, in turn, is impacted by a range of factors including planning and zoning, macroeconomic conditions, tax settings, the amount and type of land available for release, and the capacity of the construction sector to develop new estates and homes.

The Government's housing strategy is focused on growing the housing stock at a faster rate than population growth to increase access, choice and affordability. Key elements of the strategy include:

1) the Indicative Land Release Program (ILRP), complemented by planning system reforms and tax incentives;

2) investing in public housing through the Growth and Renewal Program and the Commonwealths' Social Housing Accelerator;

3) supporting the growth of the Community Housing Sector with the $60 million Affordable Housing Project Fund and the Affordable Community Housing Land Tax Exemption;

4) releasing sites on the ILRP for Build-to-Rent developments with a minimum affordable rental component; and

5) partnering with the Commonwealth under the National Housing Accord to increase the supply of social and affordable housing.

While rental affordability remains an issue for income quintiles one and two, there are early signs the Government's strategy is helping to improve rental affordability. Over the year to September, Canberra's average rent costs declined by 3 per cent, and its vacancy rate increased from 1.4 per cent to 1.8 per cent. Over the same period national rents rose by 8.4 per cent and the national rental vacancy fell to 1.1 per cent.

The Government's response to the individual elements of the Assembly Motion is outlined below.

**3a. Examine whether unrestricted short-term rental accommodation (STRA) negatively impacts the price and supply of long-term rental properties in Canberra**

The impacts of STRA on housing market dynamics vary significantly between locations, particularly between major urban centres and popular tourist destinations, and the broader rental market. STRA has negative impacts on the longer-term rental markets where it accounts for a significant proportion of rental stock. This is most evident in communities that are heavily reliant on tourism, such as Byron Bay (NSW), where STRAs account for around 24 per cent of dwelling stock and Melbourne where they account for around 14 per cent. In these cases, STRA has impacted on the price and supply of long-term rentals, and regulations are being introduced.

Several recent studies have concluded that STRA has negligible impacts on rental affordability in aggregate, with any impacts confined to sub-markets with high concentrations of STRA. While a recent report by the University of Queensland (prepared for the QLD Government) found there is little evidence that increasing STRA intensity accounts for a substantial proportion of the increase in rents observed since the start of 2020.

According to the Real Estate Institute of Australia, of the top 25 most saturated markets in Australia, the majority are tourist destinations. The top five include Port Douglas, Byron Bay, Noosa Heads, Huskisson and North Stradbroke Island. STRAs represent over 20 per cent of total dwellings in each of these communities.

In the ACT, STRA is a very small share of the overall housing stock. In March 2023, there were 1,133 ‘entire home’ STRA dwellings available (i.e. where the owner does not reside on the premises during the provision of the accommodation). STRA therefore accounts for less than 1 per cent of the ACT’s 185,000 residential dwellings. The majority of STRA is concentrated in the City, Braddon and Kingston, and to a lesser extent in Phillip and Belconnen Town Centre. This amount is not sufficient to have a significant impact on long-term rental supply or rents. Work undertaken by the Better Regulation Taskforce in 2022 also concluded that STRA is having negligible to low impacts on housing affordability, and, in aggregate, there is no discernible relationship between growth in STRA and rental vacancy rates.

**3b. explore regulatory and policy solutions to address negative local impacts of short-term rental accommodation on the supply and price of long-term rental properties in the ACT including:**

Introducing regulations for STRA would involve costs both for government and STRA hosts (implementation and compliance costs) and reduce the benefits provided by the sector to the community. Poorly targeted regulation can lead to a misallocation of the community’s scarce resources, potentially impacting living standards and overall wellbeing (via the Economy Domain of the ACT’s Wellbeing Framework). It can also have unintended distributional and equity effects.

Restricting the operation of STRA would not necessarily lead to increased supply in the long-term rental market, as it includes variably available listings, such as principal places of residence that are only available periodically. In the ACT, regulation to restrict STRA could also create unintended consequences, such as increased demand for long-term rentals from people who come to Canberra regularly for work (i.e., members of parliament and their staff) but do not permanently occupy a dwelling. This additional demand could negate any benefits from a modest amount of STRA moving to the long-term market.

STRA provides considerable benefits to the ACT community and economy. It provides an alternative accommodation option for tourists whose needs are unable to be met through hotels and has created jobs and small business opportunities. In 2022, spending by AirBnB guests in the ACT totalled $187 million, contributing $135 million to local GDP. This, in turn, supported approximately 1,200 jobs around the Territory, including direct jobs such as cleaners, property managers or gardeners who support the management of Airbnb properties, as well as indirect roles such as those in the retail, hospitality and tourism sectors.

The STRA market also offers social benefits by providing options for emergency and crisis accommodation, those transitioning between homes, and non-tourist visitor groups such as people moving to the ACT or visiting to access healthcare. STRA has provided additional accommodation options near hospitals. For example, Belconnen has been one of the fastest growing STRA areas within the ACT, meaning there are more options for people who require proximity to North Canberra hospital.

*Capping number of properties that can be rented for STRA purposes*

Implementing a property cap on STRA would require the ACT Government to determine who is permitted to and excluded from participating in the STRA market. This would result in equity and distributional issues, with some property owners excluded from income generating opportunities, while others are given access to an exclusive market with limited competition. This would be inconsistent with the objective of the Economy Domain of the Wellbeing Framework, specifically a strong economy, businesses and innovation sector that creates opportunities for all Canberrans to share in the wealth of our city.

There would also be a range of implementation and compliance challenges associated with this option. AirBnB note that Hobart City Council have attempted to implement a property cap but have encountered hurdles and negative consequences. These include a finding from the Tasmanian Planning Commission that there is no legal basis for restricting certain STRA, and a significant increase in residents seeking STRA permits due to the perception that the restriction will increase STRA profits available due to scarcity.

*Capping number of days an entire property can be rented for STRA purposes*

In property market settings where a significant share of stock is used annually for STRA, capping the number of days (i.e., a night cap) is a more effective method of shifting the housing stock from the STRA market to the long-term rental property market.

- Night caps have emerged as the most prevalent regulatory instrument in international markets where STRA has created issues with housing supply. For example, Amsterdam have imposed a 30-day limit; New Orleans, San Francisco, London and Berlin have imposed 90-day limits; and Los Angeles and Paris have imposed 120-day limits.
- Certain NSW councils, such as the Byron Shire Council are considering capping all STRA at 60 days per year (currently 180 days per year), which is anticipated to be in effect by June 2024. The City of Melbourne council have agreed in-principle to new regulations on STRA, with a preference for a 180-night cap.
    - The City of Melbourne has 4,100 STRAs, which is 14 per cent of its total housing stock.

Implementation and compliance for this option can also be challenging, as STRA owners can strategically minimise their bookings on STRA platforms and rent their properties out informally through word of mouth. Research by the think tank Per Capita found that around 21 per cent of STRA owners in Byron Bay exceeded the 180-night cap in 2022 with these types of methods.

*Tax reform*

Property owners in the ACT pay residential rates on their principal place of residence and land-tax on additional residences, which includes both rented properties and those which are vacant, properties owned as a trustee, and rented dwellings on the same property as a principal place of residence (such as a granny flat).

The question of whether changes to the tax treatment of STRA is appropriate amounts to whether there should be additional taxes or charges on the STRA sector.

Taxes are primarily used to raise revenue efficiently, simply, and fairly to fund Government services and institutions. A tax on STRA would not satisfy these principles of tax policy. It would introduce unnecessary dead weight loss into the tax system and add complexity for administration. The compliance costs would likely outweigh any revenue benefits.

Some taxes are used to ensure policy outcomes, rather than to raise revenue. This requires strong evidence there is a beneficial outcome that will be achieved by a corrective tax. At this stage, the Government does not consider a reduction in STRA in the ACT would have a significant impact on rental affordability in Canberra. Consequently, a tax targeted on reducing short term rental accommodation to achieve this outcome would be inappropriate.

*Restrict short-term rental accommodation to principal places of residence*

This method would be suitable in markets with a clear need and scope to immediately transition properties from the STRA to the long-term rental property market. This is not the case in Canberra, where the Government's housing strategy is already focused on increasing the supply of rental housing, particularly for lower income households through investments in public and affordable housing. There is also limited data available to indicate what portion of the ACT's STRAs are principal and secondary dwellings and their availability.

*Establishing a registration system for short-term rental accommodation in the ACT to enable data collection and future analysis of localised impacts on housing that is cost-neutral to government*

STRA registration systems are becoming increasingly common in jurisdictions where the STRA market has grown to a scale where regulation is both required and cost effective. Registration systems typically operate under a cost recovery model where STRA owners pay a registration fee to receive a registration number, which is required to create a listing on an STRA platform operating within the jurisdiction. Implementing a registration system also allows a government to legitimise the rights and obligations of participants on STRA platforms.

In 2021 the NSW Government introduced a state-wide planning policy for STRA. This included the establishment of an STRA register, registration and annual renewal fee, mandatory code of conduct, exclusion register and strata bylaws. The registration system collects useful data on the STRA sector in NSW which is publicly available on the NSW Government's planning portal website. The NSW STRA Policy operates under a cost recovery model, where each user pays a $65 registration fee and $25 annual fee for every additional year after.

Given there is little evidence that STRA is impacting affordability in the ACT, on balance, the costs of any regulation (particularly restrictions on the operation of the sector) would likely outweigh any benefits. However, there may be merit in exploring a registration scheme, provided the costs are not disproportionate to the ACT's small STRA sector. In particular, the introduction of a registration scheme will provide up to date information on the size and impact of the STRA properties on the overall rental market. With this in mind, the Government will continue to explore this issue in 2024.